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SUBJECT: ASO AND FUKUDA SOFTPEDALING REFORM, STRESSING
"STABILITY"

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 b/d.

Summary

1. (C) Prime ministerial candidates Taro Aso and Yasuo Fukuda continue to support economic "reform." But both are putting more stress on "stability" in their campaigns and addressing problematic side effects of reform. Specifically, Fukuda and Aso are promising relief to rural areas and are paying lots of attention to voters' pocketbook concerns. End Summary.

Two Elections, Two Visions of Reform

2. (SBU) Conversations with ruling Liberal Democratic Party (LDP) Diet members and staff reveal very different interpretations of what the July 2007 and October 2005 elections have to say about economic reform. One group stresses former Prime Minister Koizumi's structural reform line as key to the LDP's landslide victory in 2005's "postal privatization" Lower House elections. Retreat on reform, they argue, is a rejection of the voters' will. The other group focuses on how rural areas, which have not fared well economically since the start of Koizumi's reform line, deserted the LDP in its 2007 Upper House electoral loss. For them, reform is a concept tainted with the voters and must be tempered to shore up support in the LDP's traditional core constituency.

3. (C) The difference in views came into sharp relief when Chief Cabinet Secretary Kaoru Yosano and LDP Secretary General Taro Aso began laying the groundwork in early September to bring former Trade Minister and unrepentant "postal rebel" Takeo Hiranuma back into the party. Hiranuma, who was kicked out of the LDP in 2005 for opposing postal privatization, would not have been required to sign a pledge of support for the reform, as other returning "postal rebels" had. A few days prior to PM Abe's abrupt resignation announcement, LDP Diet member Masahiko Shibayama told Econoff

the LDP's leadership (specifically including Aso) was mistaken in believing the issue of upholding Koizumi's "reform agenda" had passed. Former PM Koizumi was reportedly enraged by Hiranuma's possible re-instatement.

Reform and the Next Prime Minister

14. (C) Noting a coalescing group of "Koizumi children," first term parliamentarians who rode the former PM's coattails in the 2005 election, as well as the creation of a parliamentary "reform study group" with former Minister of Internal Affairs and Communications Heizo Takenaka as an advisor, media speculated at the start of the campaign period about a new "Koizumi Faction" centered on the issue of reform. These groups appear to have been part of an early "draft Koizumi" initiative. That push, however, ended when Koizumi threw his support to leading candidate Yasuo Fukuda.

15. (C) Fukuda and rival candidate Taro Aso, for their part, are straddling the reform divide in their bids for party support. Fukuda's policy platform, for example, leads with the intent to continue reform, but adds the qualification that changes create a society with (among other things) "self-reliance" and "interdependence." Fukuda promises greater care for the disadvantaged, and talks about policies to address related concerns about the pension system, health care, and regional disparities, as well as the plight of small and medium sized businesses. Aso's platform notes the need for long-term reform, but places current priority on remedying the disruptions and disparities rooted in reform. Both candidates repeatedly promise stability to worried voters.

16. (C) Asked about the prospects for economic reform under a

TOKYO 00004417 002 OF 002

new prime minister, former Japan Post President Masaharu Ikuta took no position on policy differences between Aso and Fukuda, but told Econoff either would be far better than PM Abe. While acknowledging current discussions of greater help to the regions, he noted Fukuda was chief cabinet secretary -- and a strong supporter -- when former PM Koizumi began pushing postal privatization. And Aso, at the time Minister of Internal Affairs and Communications, worked with Ikuta to persuade parliamentarians of the privatization's benefits. Prime Minister Abe was always "shouting about reform on the television," continued Ikuta, but he frequently shifted policy around what he thought was best for the Upper House elections, which resulted in backwards slippage on reform. At least, he implied by comparison, Aso and Fukuda will show leadership.

Comment

17. (C) In straddling differences within the LDP on reform, Aso and Fukuda's platform statements are convoluted, but they display a shift away from a discussion of reform's relationship to growth and toward how its side effects should be mitigated. More telling, however, is their focus on stability. While they know the slogan of "reform" evokes a variety of reactions, they are betting that "stability" will now have more appeal, not only for the LDP's rank-and-file and leaders who will choose the next Prime Minister, but also for the Japanese public.

Schieffer